Report

of the

Examination of

Baraboo Farmers Mutual Insurance Company

Baraboo, Wisconsin

As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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July 11, 2002

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2001, of the affairs and financial condition of

BARABOO FARMERS MUTUAL INSURANCE COMPANY
Baraboo, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1997 as of December 31, 1996. The current examination covered the intervening time period ending December 31, 2001, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on December 23, 1876, under the provisions of the then existing Wisconsin Statutes. The original name of the company was and continues to be Baraboo Farmers Mutual Insurance Company.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Adams, Columbia, Juneau, and Sauk

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of three years with premiums payable on the advance premium basis. The company retains policy fees charged to policyholders.

Business of the company is acquired through seven agents, six of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
Fire and extended coverage	
Renewal policies	
$ 0 – 50,000 policy	$20
$ 50,000 – 100,000 policy	30
$100,000 – 150,000 policy	40
$150,000 – 200,000 policy	50
$200,000 – 250,000 policy	60
$250,000 – 400,000 policy	75
Over $400,000 policy	95
New policies	Add $5.00 to above
Liability	15% of premium collected

Agents have the authority to adjust losses up to $750 if the agent sold the policy, otherwise agents have authority to adjust losses up to $5,000. Losses in excess of these amounts are adjusted by two directors, one of which may be a director/agent. Depending on the level of complexity involved, agents receive between $5.00 and $20.00 for each loss adjusted plus $.34 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of six members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Marvin Giebel	Farmer & County & Town Board Member	Reedsburg, WI	2002
James Rick	Farmer	Baraboo, WI	2002
Herbert Klein	Retired	North Freedom, WI	2003
Richard Schoenoff	Farmer	Baraboo, WI	2003
Edwin Reuter	Retired	Baraboo, WI	2004
Merrell Vertein	Retired	North Freedom, WI	2004

All directors are also agents of the company.

Members of the board currently receive $30.00 for each night meeting and $60.00 for each day meeting attended and $.34 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	2001 Salary
Marvin Giebel	President	$2,000
Herbert Klein	Vice President	$ 0
Edwin Reuter	Secretary	$ 100/million of insurance in force
Edwin Reuter	Treasurer	2% of money collected

In 2001 the treasurer's salary was $8,264 and the secretary's salary was $22,097. Mr. Reuter also received $70 a month for telephone use and $3,600 per year for rent from the company. Further comment on the Secretary/Treasurer's compensation is contained the Summary of Examination Results section of this report under the heading Management Compensation.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

Adjusting Committee
Marvin Giebel
Herbert Klein
Edwin Reuter
Richard Schoenoff
Merrell Vertein
James Rick

Investment Committee
Marvin Giebel, Chair
Edwin Reuter
James Rick (alternate)

The company does not elect a chairperson for the Adjusting committee. The whole Board participates in the committee.

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1997	$234,816	$120,930	1,102	$66,291	$1,017,613	$826,396
1998	237,317	198,546	1,091	(4,478)	1,101,154	845,777
1999	236,832	238,774	1,087	(38,978)	999,360	799,081
2000	231,623	96,996	1,063	80,385	1,117,610	905,306
2001	236,059	219,735	1,053	(32,779)	1,073,797	868,501

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Writings Ratios Net
1997	$373,355	$231,853	$826,396	45%	28%
1998	388,738	240,960	845,777	46	28
1999	403,895	257,332	799,081	51	32
2000	400,278	237,623	905,306	44	26
2001	416,911	239,059	868,501	48	28

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1997	$120,930	$78,579	$234,816	51%	33%	84%
1998	198,546	86,929	237,317	84	37	121
1999	238,774	83,165	236,832	101	35	136
2000	96,996	92,695	231,623	42	40	82
2001	219,735	92,695	236,059	93	39	132

During the period under examination, policies in force have remained stable. Gross premiums have increased 12%. This is primarily the result of an increase in the value of insured property. Surplus has increased 5% since 1997. The loss and composite ratios increased during 1998, 1999, and 2001 due to significant windstorms, which resulted in net losses during these years. Otherwise, the company’s business operations have been profitable due to investment income and low expenses.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2002
Termination provisions:	Either party may terminate this contract as of any subsequent January 1 by giving to the other party at least 90 days' advance notice in writing.

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Excess of Loss Reinsurance
	Lines reinsured:	All liability (nonproperty) business written by the company
	Company's retention:	$500 in respect to each and every loss occurrence
	Coverage:	Reinsurer shall be liable for 100% of each and every loss, including loss adjustment expense, occurring on the business covered in excess of $500, subject to maximum policy limits: a. $1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability. b. $1,000,000 split limits, in any combination of bodily injury and property damage liability, c. $5,000 for medical payments, per person; $25,000 per accident.
	Reinsurance premium:	For each annual period this contract is in effect, the company shall pay the reinsurer 68% of premium written for each and every policy issued with respect to the business covered.
2.	Type of contract:	Class B First Surplus Reinsurance
	Lines reinsured:	All property business written by the company
	Company's retention:	$150,000 per ceded risk when company's net retention is $150,000 or more in respect to risk; 50% on a pro rata basis per ceded risk when the company's net retention is $150,000 or less.
	Coverage:	Up to $800,000 on a pro rata basis when the company's net retention is $150,000 or more in respect to a risk. When the company's net retention is $150,000 or less in respect to a risk, the company may cede on a pro rata basis up to 50% of such risk
	Reinsurance premium:	The pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded.

	Ceding commission:	When the loss ratio is 65% or greater, the reinsurer shall allow the company a minimum commission of 15%. The minimum commission shall increase by 1% for each 1% decrease in the loss ratio subject to a maximum commission of 35% when the loss ratio is 45% or less.
3.	Type of contract:	Class C Excess of Loss Reinsurance
	Lines reinsured:	All property business
	Company's retention:	$30,000 per risk and per occurrence.
	Coverage:	100% of any loss, excluding loss adjusting expense, in excess of $30,000, subject to a limit of liability to the reinsurer of $45,000 per loss.
	Deductible:	Annual aggregate deductible of $25,000
	Reinsurance premium:	Current rate based on a formula calculation which takes into account the losses incurred by the reinsurer under this contract for the last four years. Minimum rate: 6.00% of the current net written premiums Maximum rate: 22.30 of the current net written premiums The rate for the current annual period is 9.63%
4.	Type of contract:	Class C-2 Excess of Loss-Second Layer
	Lines reinsured:	All property business written by the company
	Company's retention:	$75,000 per risk and per occurrence.
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $75,000 in respect to each and every risk resulting from one loss occurrence, subject to a limit of liability to the reinsurer of $75,000 per loss.
	Reinsurance premium:	2.70% of the company’s current net premiums written in respect to the business covered, subject to a minimum premium of $5,760
5.	Type of contract:	Class D/E Stop Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company's retention:	Actual losses incurred up to 75% of the company’s net premiums written, including loss adjustment expense, subject to minimum retention of $170,000
	Coverage:	100% of the amount by which losses exceed the company’s retention
	Reinsurance premium:	Current rate based on a formula calculation which takes into account the losses incurred by the reinsurer under this contract for the last eight years Minimum rate: 7% of the current net written premiums Maximum rate: 25% of the current net written premiums

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2001. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Baraboo Farmer Mutual Insurance
Statement of Assets and Liabilities
As of December 31, 2001

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash Deposited in Checking Account	$ 6,204	$	$	$ 6,204
Cash Deposited at Interest	447,557			447,557
Bonds (at Amortized Cost)	244,719			244,719
Stocks or Mutual Fund Investments (at Market)	256,584			256,584
Premiums and Agents' Balances In Course of Collection	2,200			2,200
Premiums, Agents' Balances, and Installments Booked but Deferred and Not Yet Due	56,000			56,000
Investment Income Due or Accrued		6,666		6,666
Reinsurance Recoverable on Paid Losses and LAE	51,788			51,788
Other Assets:				
Federal Income Tax Refund Receivable	1,679			1,679
Deferred Commission Receivable	400			400
TOTALS	$1,067,131	$6,666	$	$1,073,797

Liabilities and Surplus

Net Unpaid Losses	$ 500
Unpaid Loss Adjustment Expenses	87
Fire Department Dues Payable	189
Unearned Premiums	146,000
Reinsurance Payable	20,023
Other Liabilities:	
Expense Related	
Accounts Payable	22,097
Nonexpense Related	
Premiums received in advance	16,400
TOTAL LIABILITIES	205,296
Policyholders' Surplus	868,501
TOTAL	$1,073,797

Baraboo Farmers Mutual Insurance Company
Statement of Operations
For the Year 2001

Net Premiums and Assessments Earned	$236,059
Deduct:	
Net Losses Incurred	212,488
Net Loss Adjustment Expenses Incurred	7,247
Other Underwriting Expenses Incurred	92,225
Total Losses and Expenses Incurred	311,960
Net Underwriting Gain (Loss)	(75,901)
Net Investment Income:	
Net Investment Income Earned	48,376
Net Realized Capital Gains	(154)
Total Investment Income	48,222
Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes	(27,679)
Net Income (Loss) Before Federal Income Taxes	(27,679)
Federal Income Taxes Incurred	5,100
Net Income (Loss)	$ (32,779)

Baraboo Farmers Mutual Insurance
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	1997	1998	1999	2000	2001
Surplus, beginning of year	$ 765,582	$ 826,396	$ 845,777	$ 799,081	$ 905,306
Net income	66,291	(4,478)	(38,978)	80,385	(32,779)
Net unrealized capital gains or (losses)	(5,977)	23,359	(7,718)	25,840	(4,026)
Change in non-admitted assets	500	500	0	0	0
Other gains and (losses) in surplus:					
Surplus, end of year	$826,396	$845,777	$799,081	$905,306	$868,501

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2001 is accepted. The examination made the following reclassification which is described in greater detail in the "Current Examination Results" section of this report.

Reclassification Account	Debit	Credit
Accounts Payable	$22,097	$
Accrued Salaries and Wages		22,097
Total	$22,097	$22,097

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Corporate Records—It is again recommended that the company include language in its formal agreements with agents indicating the agent will represent the company's interests "in good faith."

   Action—Compliance

2. Conflict of Interest—It is recommended that conflict of interest questionnaires be completed by the appropriate persons annually.

   Action—Compliance

3. Conflict of Interest—It is suggested that directors disclose in their annual conflict of interest questionnaires that being an agent of the company is a potential conflict of interest.

   Action—Noncompliance, see comments in the summary of current examination results.

4. Disaster Recovery—It is recommended that the company establish a disaster recovery plan.

   Action—Partial compliance, see comments in the summary of current examination results.

5. Cash and Invested Cash—It is again recommended that the company maintain investment records for each certificate of deposit, and that interest received (or credited) is entered into the general ledger accounts at least quarterly.

   Action—Compliance

6. Agents' Balances or Uncollected Premium—It is recommended that the company nonadmit premiums over 90 days past due.

   Action—Compliance

7. Unpaid Loss Adjustment Expenses—It is again recommended that unpaid loss adjustment expenses be established on the annual statement.

   Action—Compliance

8. Commission Payable—It is again recommended that any commission payable be established on the annual statement.

   Action—Compliance

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent period. When the examiner reviewed the minutes of the annual meeting it was noted that the company was not recording the attendance. Therefore the examiner could not determine whether a quorum was present for the annual meeting. It is recommended that the company identify the number of policyholders present at the annual meetings in order to verify that a quorum was present and that the company is in compliance with s. 181.0722, Wis. Stat.

During the review of the minutes it was also noted that only two people from the board of directors were elected to the finance/investment committee along with one alternate. According to s. 181.0825 Wis. Stat. the company's committees must consist of 3 or more directors elected by the board of directors. It is recommended that the company elect at least three directors to its committees, including the finance/investment committee, in compliance with s. 181.0825 Wis. Stat.

The examiner also noted that the company is not taking attendance for its finance/investment committee meetings. It is recommended that the company identify the directors present at the finance/investment committee meetings, pursuant to s. 181.0824, Wis. Stat.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest.

The review of the conflict of interest questionnaires revealed that directors are not disclosing the fact that they are also agents for the company. During the period covered by this examination the company's six directors acted as its sole agents, except one independent agent who wrote liability coverage exclusively. However, the examiner found only one instance where a director listed agent as one of his duties for this company. It is recommended that directors disclose all potential conflicts of interest in their annual conflict of interest questionnaires including being an agent of the company.

Management Compensation

It was noted during the examination that the Secretary/Treasurer's salary is based on premium volume. Section s. 612.16 Wis. Stat. provides that no company person can directly or indirectly obtain the exclusive right or privilege of soliciting, producing or receiving a fee or commission on all or substantially all of the business of the company or on all or substantially all of the insurance business of the company in this state. It is recommended the board of directors consider another compensation method for the Secretary/Treasurer in compliance with s. 612.16 Wis. Stat.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	**Coverage Limits**
Fidelity Bond	100,000
Insurance Agents Errors and Omissions	1,000,000
Directors & Officers Liability	1,000,000
Professional Liability	1,000,000
Commercial General Liability	300,00
Products-Completed Operations	600,000
Personal & Advertising Injury	300,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration and review.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2001.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computer is not limited to people authorized to use the computer. However, the company is going to update its software, which will include a password. The company personnel back up the computer twice weekly and the backed-up data is kept on-site and off-site.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has developed a disaster recovery plan for several contingencies, however it is inadequate. The current plan does not address the loss of a key employee. It is recommended that the company establish a disaster recovery plan that will identify steps to be taken in case the company loses a key employee.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is not in compliance with these requirements. The company keeps the majority of its certificates of deposits and a few stocks in an unsecured manner. It is recommended that the company comply with s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

Investment Rule Compliance

The investment rule for town mutuals allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as “Type 2”) provided that the town mutual has a sufficient amount of lower risk investments (referred to as “Type 1”). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$505,296
2.	Liabilities plus 33% of gross premiums written	342,877
3.	Liabilities plus 50% of net premiums written	324,826
4.	Amount required (greater of 1, 2, or 3)	505,296
5.	Amount of Type 1 investments as of 12/31/2001	777,591
6.	Excess or (deficiency)	272,295

The company has sufficient Type 1 investments.

The investment rule prescribes that a town mutual shall divest any investment which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Currently the company has all of its investments in compliance with the investment rule.

ASSETS

Cash and Invested Cash $453,761

The above asset is comprised of the following types of cash items:

Cash deposited in banks-checking accounts	$ 6,204
Cash deposited in banks at interest	447,557
Total	$453,761

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in a local bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of twenty-one deposits in seven depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2001 totaled $28,003 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.570% to 7.000%. Accrued interest on cash deposits totaled $6,370 at year-end.

Book Value of Bonds $244,719

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2001. Bonds owned by the company are held under the custody of a bank trust company.

Bonds were verified by review of the custodian's year-end statement of the company's investments. Bond purchases and sales for the period under examination were checked to brokers' invoices and advises. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2001 on bonds amounted to $19,449 and was traced to cash receipts records. Accrued interest of $296 at December 31, 2001, was checked and allowed as a nonledger asset.

During the review of the company’s bonds it was noted that a few CUSIP numbers were incorrectly reported on the annual statement. It is recommended that the company report the correct CUSIP numbers on all future annual statements.

Stocks and Mutual Fund Investments $256,584

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2001. The majority of stocks owned by the company are held by the custodian, but a few were not properly secured. A recommendation regarding this problem was made previously in the "Invested Assets" section.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advises. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2001 on stocks and mutual funds amounted to $8,562 and were traced to cash receipts records. There were no accrued dividends as of December 31, 2001.

Agents' Balances or Uncollected Premiums $2,200

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Premiums Booked but Deferred and Not Yet Due $56,000

The above asset represents premiums which are receivable from policyholders by which are not yet due because the policyholder has chosen a semiannual or quarterly billing mode. A review of individual policy information and subsequent receipts verified the reasonableness of this asset. However, the examiner noted during the testing of this asset that policy fees were not being included in policies billed on a quarterly basis. It is suggested that the company include all policy fees in its calculation of premium receivables.

Investment Income Due and Accrued $6,666

Interest due and accrued on the various assets of the company at December 31, 2001, consists of the following:

Cash at Interest	$6,370
Bonds	296
Total	$ 6,666

During the review of the accrued interest on cash deposits and bonds it was determine that interest was not being accrued properly. It is recommended that the company accrual for interest properly.

Deferred Commission Receivable $400

This asset represents the net amount of commissions due the company from the reinsurer on deferred ceded premiums and commissions payable on deferred unearned premiums. Supporting records verified this item.

Reinsurance Recoverable on Paid Losses $51,788

The above asset represents recoveries due to the company from reinsurance on losses which were paid on or prior to December 31, 2001. A review of year-end accountings with the reinsurer verified the above asset.

Federal Income Tax Refund Receivable $1,679

This asset represents the balance receivable at year-end for federal income taxes incurred prior to December 31, 2001. The examiners verified the asset amount by reviewing the CPA's tax calculation.

LIABILITIES AND SURPLUS

Net Unpaid Losses $500

This liability represents losses incurred on or prior to December 31, 2001, and remaining unpaid as of that date. The company hit its stop-loss protection point under its reinsurance contract for 2001. The examiner reviewed the company's losses and the stop loss calculation to verify that this was correct. It was determined that the company's liability for unpaid losses was $500 due to a prior claim.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses $87

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2001, but which remained unpaid as of year-end. This liability is established judgmentally based on historical loss adjustment expense incurred during the year and paid subsequent to year-end.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Unearned Premiums $146,000

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Reinsurance Payable $20,023

This liability consists of amounts due to the company's reinsurer at December 31, 2001, relating to transactions which occurred on or prior to that date.

Class A Liability Premium	$ 425
Class C-1 Premium	(2,700)
Class C-2 Premium	(900)
Class D/E Premium	(2,200)
Sliding Scale commission	9,522
Deferred Premium	15,876
Total	$20,023

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Fire Department Dues Payable $189

This liability represents the fire department dues payable at December 31, 2001. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Accounts Payable $22,097

This liability consists of the Secretary/Treasurer's salary as of December 31, 2001. The annual statement instructions require it to be reported on the line for Expense Related: Accrued Salaries and Wages. This reclass is reflected in the section of this report captioned "Reconciliation of Policyholders' Surplus." It is recommended that the company report its accrued salaries and wages on the correct line on the annual statement in accordance with the Town Mutual Annual Statement Instructions. The examiners reviewed subsequent cash disbursements and found the liability to be adequately stated.

Premiums received in Advance $16,400

This liability represents the premium paid in advance. It was verified by comparing the list for advance premiums to cash receipts.

V. CONCLUSION

The examiner's review of the company's accounts led to one reclassification and no adjustments to surplus. The reclassification was due to the company reporting a balance on the wrong line of the annual statement.

The prior examination resulted in seven recommendations and one suggestion. The company complied with six out of the seven recommendations and did not comply with the suggestion. The current examination resulted in ten recommendations and one suggestion, the majority of which pertain to corporate records.

The company's business operations have been profitable due to investment income and low expenses. Gross premiums increased 12% to $416,911 in 2001 and are primarily the result of an increase in property value. The company had favorable loss experience for two years under examination. During 1998, 1999, and 2001 the company had significant losses due to several windstorms. Surplus has increased 13%, from $765,582 in 1996 to $868,501 in 2001. The company's board of directors is actively involved in the approval of disbursements, claim settlements, risk evaluations, and investments.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Corporate Records—It is recommended that the company identify the number of policyholders present at the annual meetings in order to verify that a quorum was present and that the company is in compliance with s. 181.0722 Wis. Stat.

2. Page 15 - Corporate Records— It is recommended that the company elect at least three directors to its committees, including the finance/investment committee, in compliance with s. 181.0825 Wis. Stat.

3. Page 15 - Corporate Records—It is recommended that the company identify the directors present at the finance/investment committee meetings, pursuant to s. 181.0824, Wis. Stat.

4. Page 16 - Conflict of Interest—It is recommended that directors disclose all potential conflicts of interest in their annual conflict of interest questionnaires including being an agent of the company.

5. Page 16 - Management Compensation—It is recommended the board of directors consider another compensation method for the Secretary/Treasurer in compliance with s. 612.16 Wis. Stat.

6. Page 17 - Disaster Recovery Plan—It is recommended that the company establish a disaster recovery plan that will identify steps to be taken in case the company loses a key employee.

7. Page 18 - Invested Assets—It is recommended that the company comply with s. Ins 13.05, Wis. Adm. Code, as regard custody and control of its invested assets.

8. Page 19 - Bonds—It is recommended that the company report the correct CUSIP numbers on all future annual statements.

9. Page 20 - Premium Booked but Deferred and Not Yet Due—It is suggested that the company include all policy fees in its calculation of premium receivables.

10. Page 20 - Investment Income Due and Accrued—It is recommended that the company accrual for interest properly.

11. Page 23 - Accounts Payable—It is recommended that the company report its accrued salaries and wages on the correct line on the annual statement in accordance with the Town Mutual Annual Statement Instructions.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Sheur Yang of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Lori Cretney
Examiner-in-Charge